

HOUSE BUDGET COMMITTEE

Democratic Caucus

The Honorable John M. Spratt Jr. ■ Ranking Democratic Member

B-71 Cannon HOB ■ Washington, DC 20515 ■ 202-226-7200 ■ www.house.gov/budget_democrats

June 17, 2003

The Estate Tax and Working Families

Dear Democratic Colleague,

This week, House Republicans' priority is permanent extension of estate tax repeal, a tax cut that does not even expire until 2011.

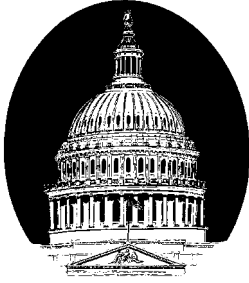
For some time now, Democrats have been offering to reform the estate tax, and in effect repeal it for more than 99 percent of all estates, but Republicans have opposed it. The Democratic substitute, sponsored by Representative Earl Pomeroy, grants more generous relief to those with modest estates than the Republican approach, and it grants it immediately. The Pomeroy substitute completely exempts all but the very largest estates from taxation and significantly simplifies tax planning for estates of all sizes. The Pomeroy substitute effectively exempts all family farms and small businesses from estate taxes.

I urge you to please read the attached fact sheet on the estate tax.

Sincerely,

/s

John M. Spratt, Jr.
Ranking Member



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Estate Tax Facts

Adding to long-term budget deficits by repealing the estate tax hurts the economy — The long phase-in of estate tax repeal — like the notorious phase-ins in other Republican tax legislation — cloaks its sizeable long-term impact on the deficit. A tiny percentage of taxable estates account for the bulk of estate tax revenues, but repeal would nonetheless be costly. The budgetary cost in 2003 through 2013 of repeal is \$162 billion, but over the succeeding ten years it is estimated to be \$840 billion. Enacting yet another Republican deficit-financed tax cut will weigh down the economy with that much more debt, just as the Baby Boom's retirement is stepping up the pressure on the government's finances.

Estate tax repeal benefits only a small percentage of the population — More than 98 percent of estates are exempt from taxation under current law. Those with estates larger than \$5 million — only 0.13 percent of decedents — account for 55 percent of estate tax revenue.

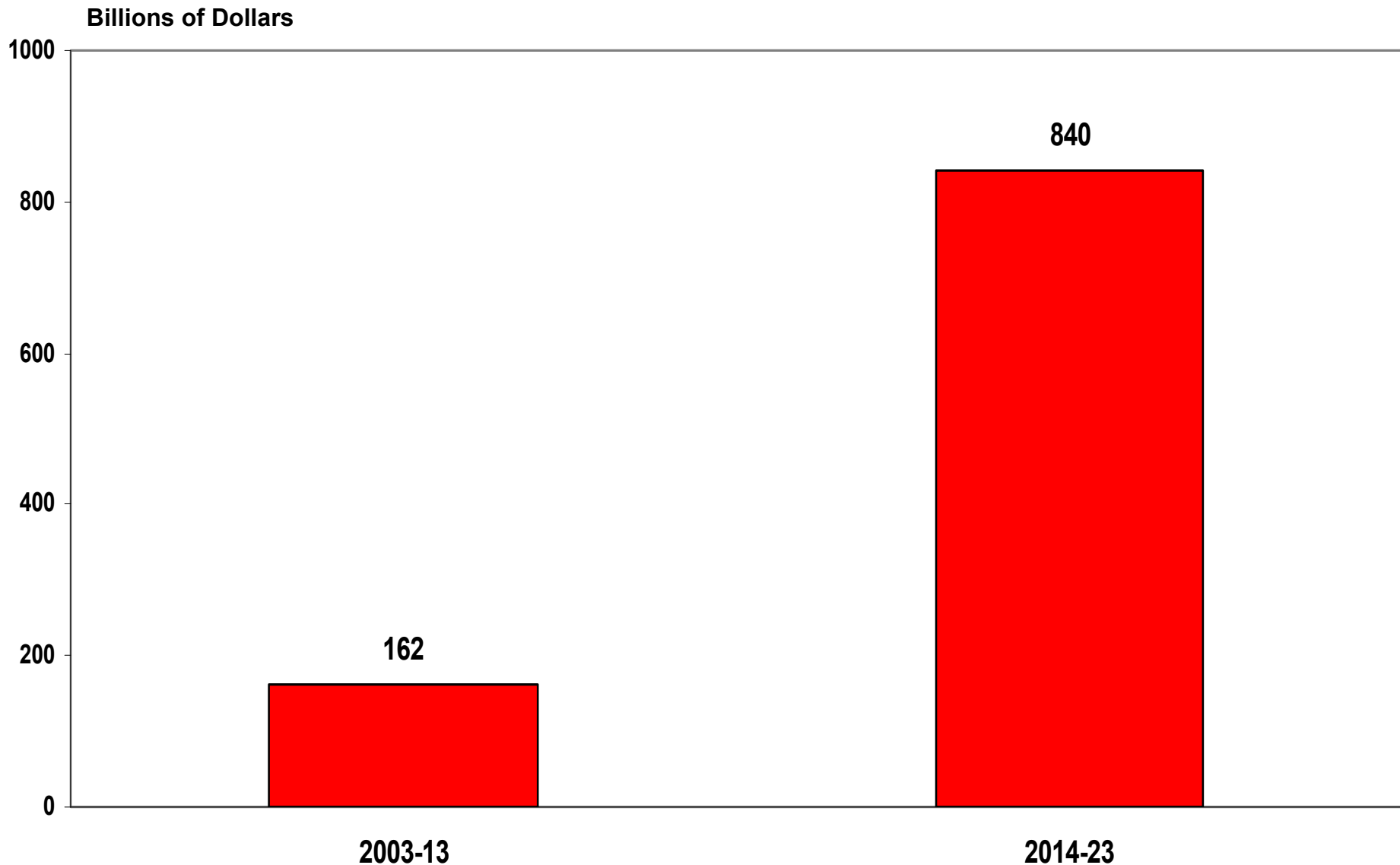
Republicans' proposal to repeal estate taxes does nothing to fix the estate-planning nightmare created by the 2001 tax cut — The 2001 Republican tax cut, like their 2002 and 2003 tax cuts, relied on a concoction of phase-ins and sunsets to make the budgetary cost appear affordable. Unfortunately, these gimmicks also make sensible estate planning impossible. Currently, people cannot predict the taxes to which their estates may be subject because they do not know in which year they will die. This week's Republican proposal does nothing to address these problems.

Complete repeal of the estate tax would harm charitable giving — Economic research carried out by the Treasury Department concludes that elimination of estate taxes reduces charitable giving by 12 percent. Thus, estate tax repeal undermines Republicans' ostensible devotion to helping the disadvantaged through voluntary private action rather than government programs.

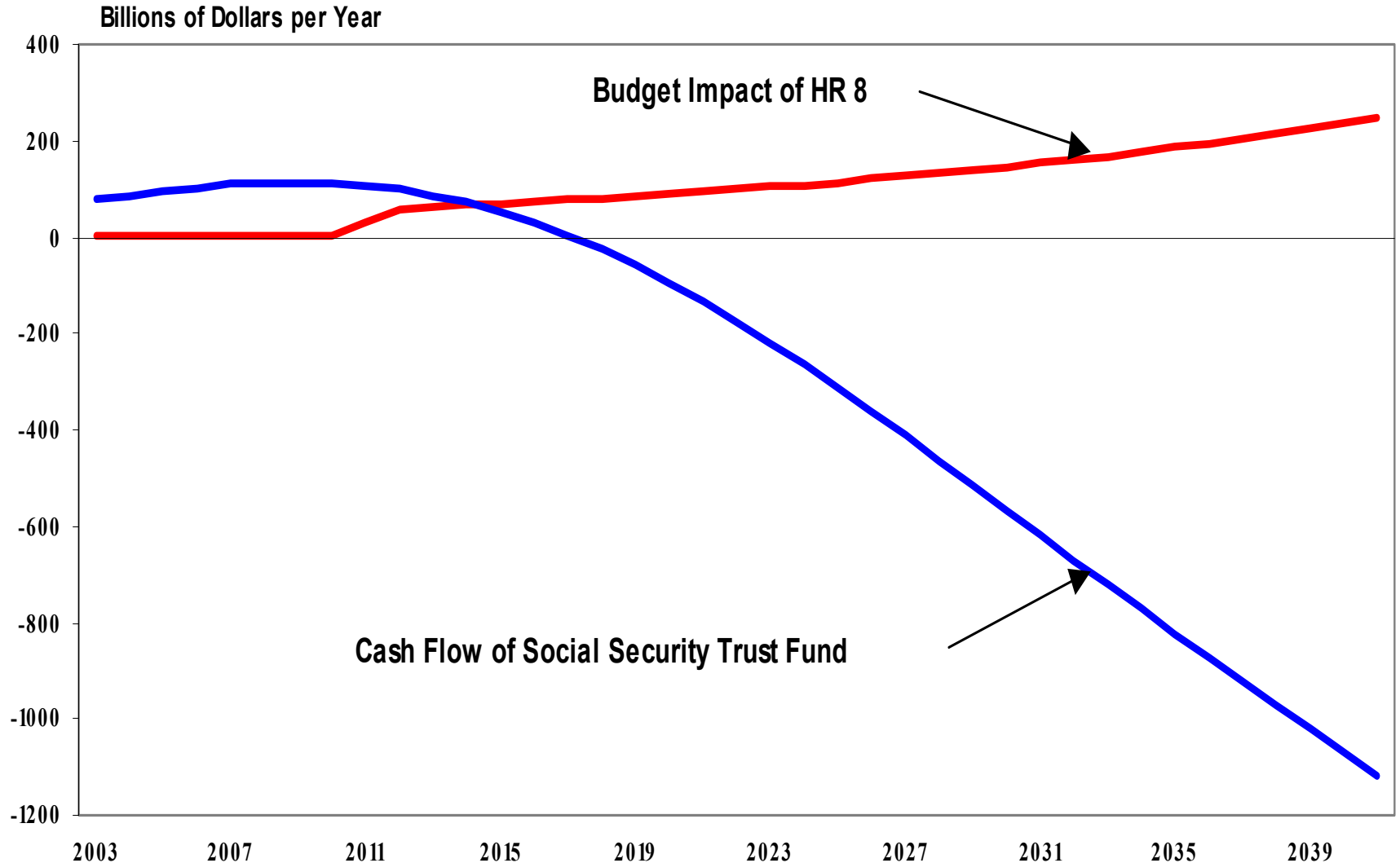
Democrats want to exempt all family farms and small businesses; Republicans make them wait — Under the Republicans' 2001 tax cut, the exemption from estate taxes rises slowly until 2010. Republicans' proposal reaches permanent repeal only after this slow phase-in. That means the estate tax will still hit relatively small estates, like family farms and small businesses, over the next seven years. Democrats' proposal for genuine estate tax reform ***immediately*** exempts couples' estates up to \$6 million. This absolves more than 99.6 percent of all estates from taxation, and less than one percent of estates with ***any*** farm income would be subject to tax.

Democrats' genuine estate tax reform offers the ultimate in simplification — The Democratic alternative essentially eliminates estate tax complexity for all but 0.36 percent of estates by immediately exempting them. Even those estates that owe tax under the Democratic alternative have a large exemption, and a stable tax system that creates certainty for estate planning.

Cost of HR 8 Explodes in the Second Ten Years



Estate Tax Repeal Adds to the Mortgage on Social Security



THE POMEROY SUBSTITUTE PROVIDES ESTATE TAX RELIEF NOW

Exemption Levels for Couples

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Pomeroy	\$6 million	\$6 million	\$6 million	\$6 million	\$6 million
H.R. 8	\$3 million	\$3 million	\$4 million	\$4 million	\$4 million

- **Immediate relief.**
- **99.65 percent of estates have no estate tax under this exemption.**
- **Less than 400 farm returns will be subject to estate tax.**

The \$5 Trillion Tax Agenda, 2001-2013

2001 Tax Cut	\$1.349 Trillion
Make 2001 Tax Cut Permanent	\$0.602 Trillion
2003 Tax Cut	\$0.350 Trillion
Make 2003 Tax Cut Permanent	\$0.656 Trillion
Protect Middle Class from AMT	\$0.680 Trillion
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Direct Effect of Tax Agenda	\$3.637 Trillion
+ Increased Debt Service	\$1.213 Trillion
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TOTAL IMPACT ON DEFICIT	\$4.850 Trillion